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Fact Sheet for the Honorable
Edward M. Kennedy, U.S. Senate

February 1990

EL SALVADOR

Pipeline of U.S. Military and Economic Aid

94-23375

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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February 23, 1990

The Honorable Edward M. Kennedy
United States Senate

Dear Senator Kennedy:

On December 19, 1989, you requested information on the U.S. aid programs for El Salvador to assist the Congress in its upcoming policy debate. Specifically, you asked us to determine (1) the amount of military and economic assistance that is in the pipeline--funds appropriated but not yet expended--and the mechanisms available to reduce or cut off aid, (2) the number and roles of U.S. military personnel in El Salvador, and (3) the effectiveness of the military aid program. To meet your immediate requirements, we have prepared this fact sheet on the financial data and mechanisms to reduce or cut off aid. As agreed with your office, the other questions will be addressed in separate reports to be issued at a later date.

RESULTS IN BRIEF

The pipeline of military aid was about \$138.8 million as of February 1990. The pipeline consists of \$44.6 million of fiscal year 1990 funds that are unapportioned and unobligated. The remainder, \$94.2 million, represents funds from fiscal year 1990 and prior years that were (1) not committed to specific purchases, (2) committed to purchases not yet on order, or (3) committed to purchases on order for delivery but not yet shipped. The Congress can legislate a reduction or cutoff of the \$138.8 million in the pipeline. If purchase contracts are cancelled, some funds may have to be used to pay termination costs.

About \$546.2 million of appropriated economic aid funds for El Salvador has not been expended. Of this, \$193.4 million has not been obligated and \$352.8 million has been obligated but not expended. Like the military aid funds, the Congress can reduce or cut off economic assistance funds that have not been expended and incur some contract termination costs. U.S. government officials, however, urged that the Congress not cut off aid to El Salvador.

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MILITARY ASSISTANCE

Fiscal year 1990 military assistance for El Salvador amounts to \$84.6 million¹ for purchases of military goods and services. As of February 15, 1990, the Department of Defense had obligated a total of \$40.0 million. The remaining \$44.6 million had not been obligated.

After funds are apportioned from the Office of Management and Budget, obligated, and held in a trust fund account for El Salvador, they are committed to specific purchases of military supplies and equipment. Subsequently, orders are placed and items are delivered. The length of time from obligation of funds to delivery of military items in-country may be up to several years. As a result, a significant amount is in the pipeline. For example, as of February 1990, about \$28.3 million of the fiscal year 1990 funds obligated had not been committed for specific purchases, and of the \$11.7 million committed to purchases using fiscal year 1990 funds, only about \$3.0 million worth of military items had been delivered. For prior fiscal years, about \$25.1 million worth of items had been ordered but not yet delivered. Because deliveries may be made daily, the amount of assistance in the pipeline may have changed since we obtained the data. Additional information on the military assistance pipeline is included in appendix Y.

OPTIONS FOR REDUCING MILITARY AID

We reviewed with U.S. government officials several options for reducing or cutting off military aid to El Salvador. U.S. officials were concerned that a reduction or curtailment in military aid would (1) signal a lack of support to the democratically elected government of El Salvador; (2) lead to a resurgence of violence by the right and the left, whose goal has been to eliminate U.S. assistance; (3) remove the leverage military aid offers in seeking reforms in the military as an institution; and (4) jeopardize the military's ability to protect critical areas and effectively support and maintain a stable government. According to U.S. officials, the Salvadoran military has a 30- to 90-day supply of material and equipment. They indicated that a reduction in military aid would result in serious shortages in medical aid, rations, repair parts, ammunition, and other soldier support items.

¹Excludes \$1.4 million under the International Military and Education Training program.

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If a decision is made to reduce or curtail military aid, Defense Department officials indicated that at various points in the funding cycle, mandated cuts would have financial and legal implications. The options highlighted below are discussed in more detail in appendix II.

- Not obligate or expend the \$44.6 million in unapportioned and unobligated fiscal year 1990 funds.
- Freeze further commitments of the \$29.4 million in obligated funds from current and prior fiscal years. (The Department of Defense took the position that if the United States deobligated current fiscal year funds, it would be violating its bilateral agreements with the government of El Salvador.)
- Suspend further performance on agreements with El Salvador to provide goods and services that are valued at \$39.4 million and have not yet been ordered.
- Cancel orders of \$25.4 million in items that have not been shipped and pay contract termination liabilities.

The United States could also intercept items in transit to El Salvador. However, Defense Department officials contend that this might be difficult.

ECONOMIC ASSISTANCE

In February 1990, the U.S. government allocated \$228.9 million of fiscal year 1990 funds for El Salvador--\$130.6 million of Economic Support Fund² monies, \$58.8 million in Development Assistance³ funds, \$35.0 million in Public Law 480 Title I loan monies, and \$4.5 million for food donations under Public Law 480 Title

²The Economic Support Fund is used to promote economic or political stability in areas where the United States has special security or other interests. It may be provided as project aid or as cash transfers to finance imports and support balance-of-payments.

³Development Assistance is project aid to provide basic needs to the poor and advance economic development.

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II.⁴ In addition, \$13.7 million of fiscal year 1989 Economic Support Fund monies was carried over for obligation in fiscal year 1990. The fiscal year 1990 Public Law 480 funds totalling \$39.5 million and \$9.7 million of the 1989 carry-over funds, had been obligated, but only about \$1.6 million of Title II food donations had been spent. Obligated but unexpended project assistance funds from prior years (both Economic Support Fund and Development Assistance) amount to \$305.2 million.

Officials of the Agency for International Development told us that the Congress could, by statute, reduce the amounts of economic assistance funds available for obligation or require that unexpended funds be deobligated. According to agency officials, such actions would disrupt assistance plans and ongoing projects, could require major program strategy and structural changes, and may involve some contract termination costs. Additional data on the pipeline of economic aid is in appendix III.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective was to determine the assistance pipeline to El Salvador, including military and economic aid, and the mechanisms available for reducing or curtailing assistance. We interviewed officials at the Departments of Defense and State and the Agency for International Development and reviewed agency documents, including summary listings of all active sales cases prepared by the military services and economic assistance financial status reports. For purposes of this fact sheet, the pipeline includes funds available for obligation and funds obligated but unexpended. (Agency for International Development officials indicated that their agency generally uses the term pipeline to describe funds that have been obligated but not expended.)

The pipeline data was requested as of December 31, 1989; however, some adjustments were made to reflect budget allocations, obligations, and other changes that occurred during January and February 1990. The amount in the pipeline continues to change daily as funds are expended and new commitments are made with the Salvadoran government and contractors.

⁴Public Law 480 (Food for Peace) Title I authorizes the provision of long-term, low-interest loans to purchase U.S. agricultural commodities. Title II authorizes food donations to benefit needy people.

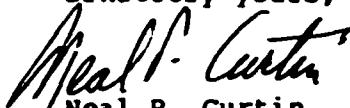
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We conducted our review between December 1989 and February 1990 in accordance with generally accepted government auditing standards. We did not obtain written agency comments, but we discussed a draft of this fact sheet with officials of the Departments of Defense and State and the Agency for International Development and incorporated their comments as appropriate.

Unless you publicly announce its contents earlier, no further distribution of this fact sheet will be made until 7 days from its issue date. At that time, we will provide copies to interested congressional committees, the Secretaries of Defense and State, the Administrator of the Agency for International Development, and the Director of the Office of Management and Budget. We will also provide copies to other interested parties upon request.

This fact sheet was prepared under the direction of Joseph E. Kelley, Director of Security and International Relations Issues, who may be reached on (202) 275-4128 if you or your staff have further questions. Other major contributors to this report are listed in appendix IV.

Sincerely yours,



Neal P. Curtin
Director for Planning and Reporting

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APPENDIX I

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MILITARY ASSISTANCE PIPELINE

The Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990, placed a ceiling of \$85 million on fiscal year 1990 military aid for El Salvador, and the Department of State allocated \$84.6 million. After the Congress appropriates military assistance funds and the country dollar allocation is made, the funds are apportioned for subsequent obligation. Of the fiscal year 1990 allocation, \$40.0 million had been apportioned by the Office of Management and Budget and obligated by the Department of Defense by mid-February 1990 through agreements signed by the U.S. and Salvadoran governments. The monies are credited to a trust fund account.

Obligated funds can be either committed or uncommitted. Committed funds are monies that are "reserved" by the Defense Department for the full value of specific Foreign Military Sales cases--contractual agreements between the United States and a recipient country for the purchase of military goods and related services. Uncommitted funds are monies that have not been "reserved" for specific sales cases or monies remaining from closed cases of prior years.

Purchases on order are committed monies that have been used to buy defense items for El Salvador. The Defense Department includes both materiel that has been delivered and materiel that is on order for delivery in this category. Also, some of the delivered materiel may be in transit. Only \$3.0 million of materiel funded with fiscal year 1990 funds had been delivered as of January 31, 1990.

Military assistance funds available to El Salvador are listed in table I.1. Figures I.1 and I.2 describe the flow and sources of funds available from fiscal year 1990 and prior years.

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Table I.1: Military Assistance Funds Available to El Salvador
Dollars In Millions

<u>Status of funds</u>	<u>Fiscal years prior to 1990^a</u>	<u>Fiscal year 1990^a</u>	<u>Total</u>
Unapportioned/ Unobligated	-	\$44.6	\$44.6
Obligated Uncommitted	\$ 1.1	28.3	29.4
Committed but not yet on order ^b	30.9	8.5	39.4
On order, but not delivered	25.1 ^c	0.3	25.4
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Total ^d	<u>\$57.2</u>	<u>\$81.6</u>	<u>\$138.8</u>

^aFiscal year 1990 apportionment data as of February 14, 1990; other fiscal year 1990 data as of January 18, 1990. Prior fiscal years data as of December 31, 1989.

^bArmy data as of January 10, 1990.

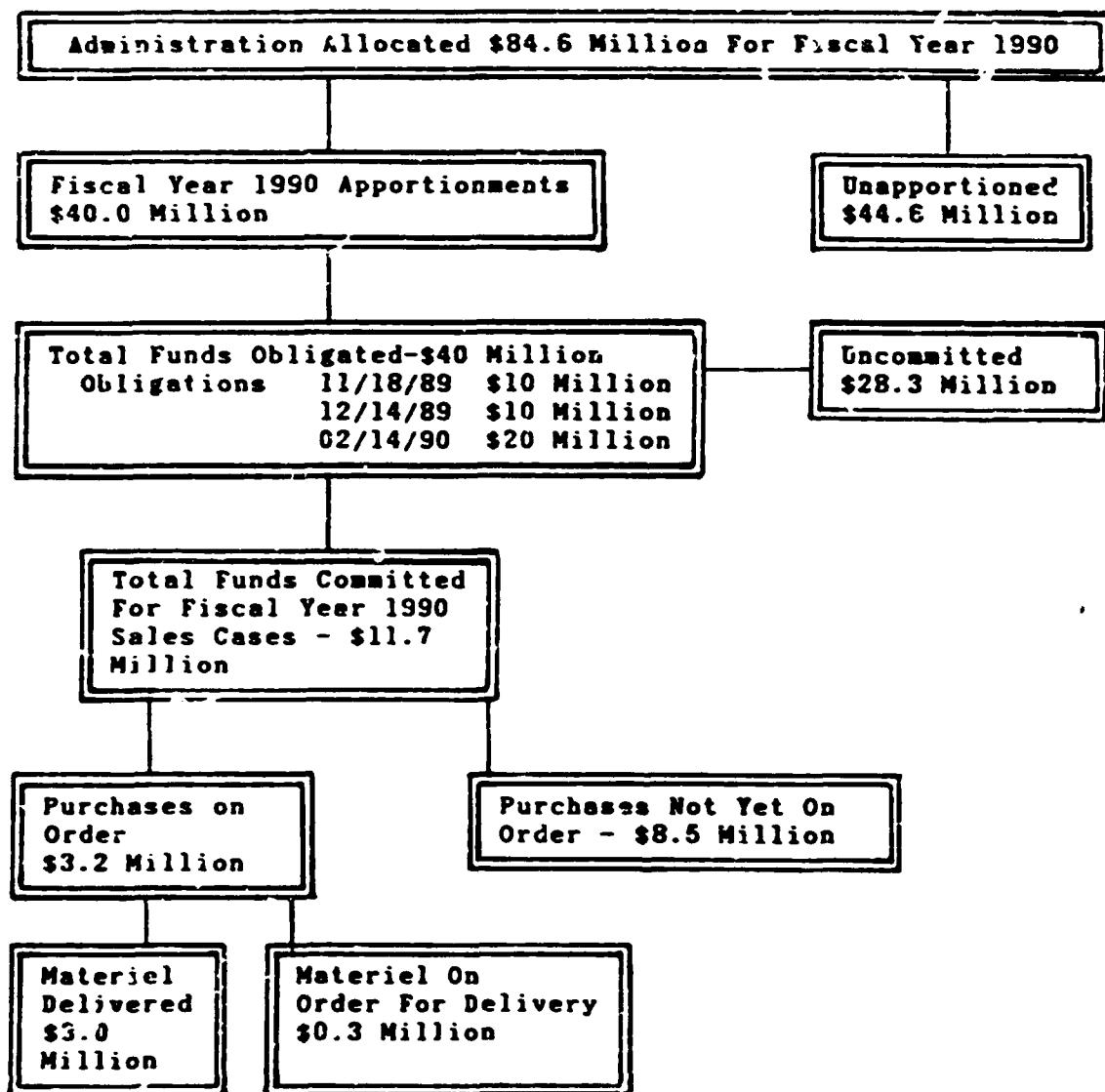
^cActual amount may be higher because Army data does not include materiel ordered before October 1, 1988, that has not yet been delivered.

^dFigures may not add due to rounding.

APPENDIX I

APPENDIX I

Figure I.1: Status of Fiscal Year 1990 Military Aid to El Salvador (as of January to February 15, 1990)

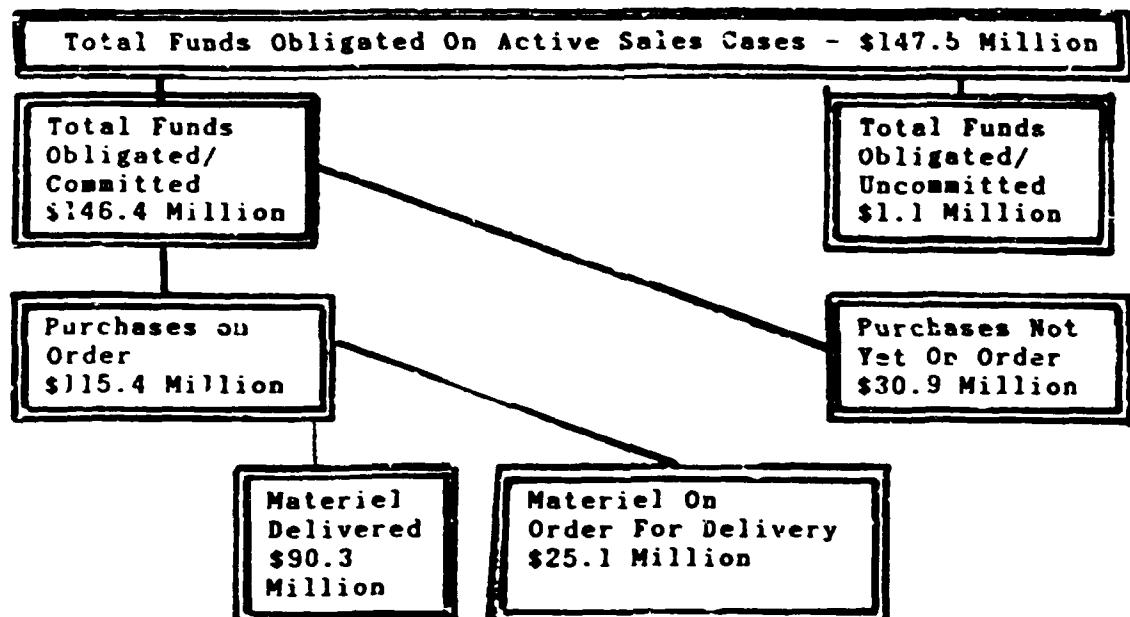


Note: Figures may not add due to rounding.

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Figure I.2: Status of Military Assistance Funds Obligated for El Salvador Prior to Fiscal Year 1990 (for active sales cases as of December 1989)



Notes:

1. Navy data as of December 31, 1989; Air Force data as of January 5, 1990. Army committed but not yet on order data as of January 10, 1990. Army data for materiel delivered and on order for delivery for period October 1, 1988, to December 31, 1989. Actual amounts, including the period before October 1, 1988, may be higher.
2. Figures may not add due to rounding.

OPTIONS FOR REDUCING OR CUTTING
OFF MILITARY AID

The following options are methods of reducing or curtailing the flow of military aid to El Salvador. Defense Department officials outlined the legal and financial implications of the mechanism to implement each option. They requested to be consulted on the preparation of any statute that would limit, suspend, or condition aid. We note that these options may require congressional action under the Impoundment Control Act of 1974.

OPTION 1: There is \$44.6 million of unobligated funds appropriated by the Congress and allocated by the State Department for fiscal year 1990 (\$84.6 million allocated, minus \$40.0 million obligated to date). Of the \$44.6 million, \$5 million is subject to a legislative embargo.⁵ The United States could stop new obligations or reduce funds available for obligation for El Salvador or increase the embargoed funds from \$5 million to \$44.6 million.

OPTION 2: Funds obligated with the government of El Salvador but not committed to specific purchases amount to about \$28.3 million for fiscal year 1990 and \$1.1 million from prior fiscal years. The United States could freeze further commitments of fiscal year 1990 funds or deobligate funds. According to Defense Department officials, a deobligation of fiscal year 1990 funds without the consent of El Salvador would be a violation of the bilateral agreements. The U.S. government could freeze further commitments of prior year funds used to offset price increases or deobligate them. Deobligated prior year funds would be returned to the Treasury; they could not be reobligated for another country because the fiscal period of availability has expired. The conditions for deobligating and reobligating current and prior years' funds would also apply to the options discussed below.

⁵Section 539 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 (the Harkin Amendment), requires that \$5 million of appropriated funds for military assistance financing for El Salvador not be expended until the President reports to Congress that El Salvador has substantially concluded all investigative action on the January 1981 murders of two U.S. land reform consultants and has pursued all legal avenues to bring to trial and obtain a verdict on those who ordered and carried out the murders.

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OPTION 3: Funds committed for specific purchases but not yet on order amount to \$8.5 million for fiscal year 1990 and \$30.9 million from prior fiscal years. The U.S. government could suspend further performance on these purchases. The U.S. military services are currently negotiating contracts and requisitions on some of these cases.

OPTION 4: Materiel ordered for delivery but not shipped amounts to about \$0.3 million for fiscal year 1990 and \$25.1 million from prior fiscal years. The United States could cancel these orders. Some funds may have to be used to pay termination liability costs.

OPTION 5: According to Defense Department officials, an undetermined amount of military aid is currently in transit to El Salvador. The U.S. government could attempt to intercept shipments, but Defense Department officials said that this might be difficult, because title is transferred to the Salvadoran government when the shipment leaves the supplier or depot, and any intercepted shipments would still belong to El Salvador.

APPENDIX III

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ECONOMIC ASSISTANCE PIPELINE

According to the U.S. government's budget allocation, El Salvador will receive about \$228.9 million in economic aid from fiscal year 1990 appropriations -- \$130.6 million of Economic Support Fund monies, \$58.8 million in Development Assistance funds, and \$39.5 million under Public Law 480 -- \$35 million in Title I loans for food sales, and \$4.5 in Title II food donations. Most of these funds were not obligated as of January 1990 and not planned for obligation until after the February 1990 budget allocation. The U.S. and Salvadoran governments signed an agreement on January 19, 1990, for the sale of \$35 million of Title I food commodities, but shipments are not expected to begin for several months. All of the Title II food donations were obligated and \$1.6 million worth of food had been shipped as of February 1990. Less than \$5,000 of the Development Assistance funds had been obligated as of January 1990. Table III.1 lists appropriated economic aid funds that had not been expended as of January/February 1990.

The Economic Support Fund aid will be divided between cash transfers of \$98.0 million and project aid of \$32.6 million. The cash transfer aid is scheduled for obligation in April 1990 and for disbursement between May and August 1990. In addition, unobligated Economic Support Fund project aid of \$13.7 million was carried over from fiscal year 1989 to fiscal year 1990, bringing the total of Economic Support Fund project aid available for obligation to over \$46 million. As of January 31, 1990, \$9.7 million of this amount had been obligated.

For prior fiscal years, agency officials report that project assistance funds (both Economic Support Fund and Development Assistance) amounting to \$305.2 million had been obligated for individual projects but not expended at the end of calendar year 1989. Of this amount, about \$171 million was committed under specific contracts. Cancellation of these contracts could require payment of termination costs. The remaining \$144 million was under contract negotiation. All prior year Economic Support Fund monies for balance-of-payment support was disbursed as of December 1989. All 1989 Public Law 480 Title I and Title II food shipments were completed by the end of 1989.

We asked officials of the Agency for International Development if economic assistance funds could be used by El Salvador to pay for military costs such as soldiers' salaries. They told us that none of the economic assistance could be used for military purposes because controls are in place to ensure that funds are used for intended purposes. They acknowledged that because money is fungible, the provision of funds for economic and humanitarian

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purposes could enable El Salvador to concentrate more of its resources on military costs.

Table III.1 Economic Assistance Funds Available to El Salvador
Dollars in millions

<u>Source of funds</u>	<u>Amount</u>
Fiscal year 1990	
Unobligated	
Economic Support Fund	\$130.6
Development Assistance	58.8
Obligated but unexpended	
Public Law 480 Title I	35.0
Public Law 480 Title II	2.9
Prior fiscal years	
Unobligated	
Economic Support Fund carryover	4.0
Obligated but unexpended	
Economic Support Fund carryover	9.7
Economic Support Fund and Development Assistance monies	<u>305.2</u>
Total	<u>\$546.2</u>

Note: Data as of January/February 1990.

APPENDIX IV

APPENDIX IV

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